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C O N F I D E N T I A L SECTION 01 OF 02 YEREVAN 000192

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SUBJECT: MCC - ECONOMIC ADVISOR URGES ANALYTICAL APPROACH

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Classified By: Ambassador Marie L. Yovanovitch. Reasons 1.4 (b/d)

SUMMARY

1. (C) Presidential Economic Advisor Vahram Nercissiantz told Ambassador that the MCC compact's close linkage to political indicators is problematic, and using assistance programs as a political cudgel usually backfires. Nercissiantz urged that the USG make its case to the GOAM on democracy indicators through analytical measures, persuasion and dialogue rather than threats. Ambassador reminded Nercissiantz that the MCC is a performance-based program, and the GOAM agreed at the outset to its conditions. She noted the USG will be paying close attention to the GOAM's progress on democracy indicators as well as the May 31 election for Yerevan Mayor ahead of the June MCC Board meeting that may decide the compact's fate. End Summary.

PERSUASION THROUGH ANALYSIS

2. (C) Ambassador met March 18 with Presidential Economic Advisor Vahram Nercissianz, who pleaded for the USG to take a different approach to its consideration of the status of Armenia's MCC Compact. Nercissiantz mentioned that he had helped to design the MCC Compact program for Armenia, and considers the MCC a development partner of Armenia, as well as an ally--along with the World Bank and IMF--against corruption and in support of transparency in Armenia's governance. For that reason he would find it very harmful to Armenia's development for the compact to be cancelled.

3. (C) Nercissiantz asserted that threats to cancel the program are likely to be unproductive, noting that threats from the IMF--especially public ones--in the past had always produced defiance from the recipient government and negative economic consequences. He argued that if the USG hopes to save the MCC Compact and get its message understood by the GOAM, it should attempt to persuade the GOAM through dialogue and analysis rather than threats of cancellation. He suggested that a rigorous, analytical presentation of Armenia's political and economic situation and the negative consequences of the GOAM's failing democracy indicators was more likely to produce the desired results than threats to cancel the Compact.

4. (C) Ambassador replied that the USG has raised the MCC issue repeatedly with GOAM officials, who have usually responded that there have been improvements on the governance indicators, a position with which the USG does not agree. Ambassador pointed out that MCC was set up as a different entity than USAID, intended not just to help countries in need, but to reward those making efforts at good governance, and that GOAM officials understood and agreed to this when they signed the agreement. MCC is a conditional program and Armenia has choices to make that will affect its MCC status; it is not a passive player.

15. (C) Ambassador pointed out that the GOAM is failing on a number of democracy indicators, and in some cases needlessly squandering its democratic legitimacy. As one example, the GOAM has for the past year consistently refused to authorize opposition rallies, then in every instance has stood aside and allowed them to occur without incident. However, the fact that the GOAM refused to grant the permit is a black mark against Armenia's freedom of assembly. What is the point of making an anti-democratic stand by denying permission when authorities realize that the rallies will proceed anyway?

WHAT CAN I TELL THE PRESIDENT?

16. (C) At the end of the meeting, Nercissiantz changed his approach and asked what Armenia needs to do to retain the Compact. Nercissiantz said he would he would soon be meeting again with the President, and asked what message he could deliver regarding MCC. Ambassador replied that the USG continues to follow the GOAM's handling of the March 1 detainees, its respect for freedom of assembly, and freedom of the press. All of these issues were discussed in the previous evening's telephone call between Secretary Clinton and President Sargsian. Ambassador added that the May 31 mayoral elections will be critical to Armenia's MCC status. The MCC Board is unlikely at its June Board meeting to approve continuation of Armenia's compact if there are problems with the conduct and outcome of the May 31 election (Comment: Nercissiantz' body language visibly changed upon mention of the May 31 election, as if silently acknowledging that he knows it will be problematic, and will therefore worsen Armenia's MCC prospects. End Comment).

COMMENT

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17. (C) We find it surprising--indeed difficult to believe--that Nercissiantz was as unaware as he seemed of the Ruling Justly commitments that go along with the MCC Compact. As a former 30-year employee of the World Bank in Washington, Nercissiantz is usually savvy about such things. His niche in the presidency is to be the friendly face to the West who "gets it" on IFIs and international donor relations. We suspect that in this case, unusually, he has been carefully instructed on the messages to deliver, and this was his bid to change the U.S. view. We take this as a sign that top GOAM officials are now concerned that the MCC program may genuinely be at risk of cuts, and are pulling out all the stops to try to head that off. End Comment.
YOVANOVITCH